Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter of	)	
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Implementation of the	)	
Telecommunications Act of 1996:	)	CC Docket No. 96-150
	)	
Accounting Safeguards Under the	)	
Telecommunications Act of 1996	)	
	)	

COMMENTS OF SPRINT CORPORATION

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SUMMARY

Accounting safeguards, properly implemented and properly enforced, can be a useful regulatory tool for protecting subscribers to BOCs' regulated telecommunications services against improper cost allocations and competitors against unreasonable discrimination. However, given the BOCs' undeniable economic incentives to exploit their overwhelming market power in their local and regional markets to harm competition as they enter the interLATA market, non-structural accounting safeguards alone can hardly be expected to effectively constrain potential cost misallocation and discrimination by the dominant BOCs against their competitors. Enforcement of the cost accounting rules is inherently backward looking. In the new competitive environment, enforcement after the harm is done will be too late. Thus, the Commission will only be able to deter a BOC's ability to abuse its market power by ensuring that a BOC faces sufficient facilities-based local competition before it is allowed to enter its in-region interLATA market. Moreover, in order to enable effective facilities-based local competition to develop, the Commission must enforce strict structural separation between the BOC's local exchange and exchange access operations and the BOC's affiliates entering the in-region interLATA, manufacturing and other competitive markets.

At most, a regulatory regime of accounting safeguards should complement these structural efforts. The Commission's Parts 32

and 64 Rules provide such a complementary regime, and there is no need for the Commission to require the BOCs (and other LECs) to significantly modify their systems to accommodate a fundamentally different cost allocation approach. In those instances where the Commission has been granted jurisdiction over regulated services previously subject to state regulation and where there is no statutory requirement for the BOCs to provide such services on a separated basis, the Commission should, for cost accounting purposes, require the BOCs treat such services as if they were non-regulated. For those services which the BOCs must provide on a separated basis, Sprint agrees with the Commission's tentative conclusion that Commission's "current affiliate transactions rules generally satisfy the statute's requirement for safeguards. There is no need for the Commission to eliminate use of the prevailing market price method to establish the value of affiliate transactions or require the use of fair market value to establish the value of affiliate transactions involving services.

Finally, with respect to the issue of price caps, Sprint believes that (1) the price cap indices must be lowered to reflect the removal of investment and associated costs from regulated activities; (2) most new investment should be treated as exogenous only if it meets the Commission's standards for exogenous cost treatment; and (3) if sharing is eliminated, the Commission must continue to perform periodic performance reviews in order to ensure that the price cap plan is working as intended.

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FEDERAL COMMUNICATIONS COMMISSION
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In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996	))))))))	CC Docket No. 96-150

COMMENTS OF SPRINT CORPORATION

Sprint Corporation, on behalf of Sprint Communications Company L.P. and the Sprint local exchange carriers, hereby respectfully submits its comments in response to the *Notice of Proposed Rulemaking* (*NPRM*) released July 18, 1996 (FCC-96-309) in the above-captioned proceeding.

I. INTRODUCTION

Although the Telecommunications Act of 1996 reflects a Congressional determination to permit "the BOCs to engage in previously proscribed activities" under certain conditions, *NPRM* at ¶5, it also reflects a Congressional recognition that "BOC entry into in-region interLATA services, manufacturing and other areas raises serious concerns for consumers and competition, even after a BOC has satisfied the requirements for entry." *Id.* at ¶6. Such concerns are, of course, well-justified. The BOCs' near monopoly control of their in-region local exchange and exchange access markets and the Commission's price cap regulatory regime provide the BOCs with "an incentive to misallocate to [their] regulated core business costs that would be properly allocated to [their] competitive ventures." *Id.*[1] Thus, as the Commission observes, one of its mandates under the 1996 Act is to establish the necessary accounting safeguards

> to protect subscribers to regulated monopoly services provided by the BOCs and, in some cases, other incumbent local exchange carriers against the risk of being forced to "foot the bill" for the carriers' entry into, or continued participation in, competitive services, and to promote competition in new markets by preventing carriers from using their existing market power in local exchange services to obtain an anticompetitive advantage in those new markets the carriers seek to enter. *Id.* at ¶4.

Given the BOCs' undeniable economic incentives to exploit their overwhelming market power in their local and regional markets to harm competition as they enter the interLATA market, the establishment of strict accounting rules to help control such incentives is central to the goal of the 1996 Act to foster competition. But, non-structural accounting safeguards alone can hardly be expected to effectively "constrain potential cost misallocation and discrimination against competitors" by the dominant BOCs. *Id.* at ¶6. While cost allocation rules, properly implemented and properly enforced, can be a useful tool to guard against cross-subsidy, enforcement of the rules is inherently

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[1] Of course, any such incentive is less under a price cap regime than under a rate-of-return regime.

backward looking. In the new competitive environment, enforcement after the harm is done will be too late. Thus, as Sprint has explained in its Comments filed August 15, 1996 in CC Docket No. 96-149 (*BOC In-Region NPRM)* at 3-4, the Commission will only be able to deter a BOC's ability to abuse its market power by ensuring, as required by Section 271(c)(1)(A), that a BOC faces sufficient facilities-based local competition before it is allowed to enter its in-region interLATA market. Moreover, in order to enable effective facilities-based local competition to develop, the Commission must enforce strict structural separation (as required by Section 272) between the BOCs' local exchange and exchange access operations and the BOCs' affiliates entering in-region interLATA, manufacturing and other competitive markets. *See* Sprint's Comments in CC Docket No. 96-149 at 4-6; 19-29.

The goal of the accounting safeguards to be adopted in this proceeding should be to complement the Commission's efforts to promote the development of effective competition in local markets by "protecting subscribers to BOCs' and other incumbent local exchange carriers' regulated telecommunications services against improper cost allocations and competitors against unreasonable discrimination," *NPRM* at ¶11, and by enforcing the requirements of Section 254(k). Fortunately, Parts 32 and 64 of the Commission's Rules provide the Commission a regulatory regime of non-structural accounting safeguards that can help it to realize this goal. There is simply no need for the Commission to require local exchange carriers that have "implemented internal cost allocation systems to help ensure their compliance with these rules" to incur the "substantial administrative and financial costs" of redesigning these systems "to accommodate a fundamentally different cost allocation approach," *NPRM* at ¶28. Thus, as further discussed below, Sprint recommends that the Commission's current cost-allocation and affiliate transaction rules, appropriately modified to take into account the fact that the BOCs will be able to enter the previously proscribed interLATA and manufacturing markets, be adopted here.

II. SCOPE OF THE COMMISSION'S AUTHORITY

Consistent with its tentative conclusions set forth in the *BOC In-Region NPRM,* the Commission has tentatively concluded in its *NPRM* here that with respect to the accounting matters set forth in Sections 271 and 272, it has jurisdiction "over both interstate and intrastate interLATA services and interLATA information services" (¶43), and that the accounting safeguards for BOC manufacturing activities set forth in Section 273 apply to all such activities "irrespective of any jurisdictional distinctions" (¶99). For reasons already explained in its Comments in CC Docket No. 96-149 at 9-11, Sprint agrees with both conclusions. The regulatory paradigm established by the 1996 Act gives the Commission jurisdiction over interLATA services provided by the BOCs regardless of whether such services are provided on an intrastate or interstate basis. The Commission also has jurisdiction over all BOC manufacturing activities since manufacturing cannot, as a practical matter, be segregated into interstate and intrastate components. *See NPRM* at ¶100.

Thus, it is not necessary for the Commission to consider whether it should preempt any inconsistent State regulation of any intrastate interLATA telecommunications and information services offered by the BOCs or any manufacturing activities engaged in by the BOCs in order "to achieve the intent behind the accounting safeguards." *NPRM* at ¶50. Such BOC services and activities are now subject to the Commission's cost allocation rules and any cost allocation procedures being utilized by the various States no longer apply.

Similarly, the question of federal preemption does not arise with respect cost allocation procedures for the BOCs' provision of intrastate intraLATA telemessaging, alarm monitoring, and payphone services. The 1996 Act grants the Commission jurisdiction over such services without regard to either state or LATA boundaries to ensure that the BOCs do not cross-subsidize their provision of services from their telephone exchange services.[2]

[2] See Section 260(a)(1) (telemessaging); Section 275(b)(2) (alarm monitoring) and Section 276(a) and (c) (payphones). Sections 260(a)(1) and 275(b)(2) also clearly apply to other incumbent local exchange carriers. However, Section 276(a) states refers only to the BOCs and specifies that the BOCs shall not subsidize their payphone services from their exchange and exchange access

Footnote continues on next page.

Under the 1996 Act, however, the States appear to retain jurisdiction over other intrastate intraLATA telecommunications services and intraLATA information services provided by the BOCs to the public.[3] Thus, if considered necessary to promote the goals of the 1996 Act, the Commission would have to exercise its preemption authority over state regulation of such services.

Throughout the *NPRM,* the Commission states its tentative conclusion that it will not reverse its "prior policy of not preempting States from using their own cost allocation procedures for intrastate purposes." *NPRM* at ¶36; *see* also ¶¶50 and 56. Although Sprint agrees that the Commission should not at the present time exercise its preemption authority, Sprint suggests that, at the very least, the Commission investigate whether the States currently have in place (or will likely soon adopt) accounting safeguards for the BOCs' provision of intrastate intraLATA services and intraLATA information services. If such

operations and shall not discriminate in favor of their payphone operations. *NPRM* at ¶60.

[3] Under Sections 251 and 252, the Commission has the duty to ensure that the rates, terms and conditions of interconnection, resale services and access to unbundled elements are just and reasonable. *See Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, First Report and Order*, FCC 96-325, released August 8, 1996 (*Interconnection Order*) at ¶24 where the Commission explains that Sections 251 and 252 of the 1996 Act "address both interstate and intrastate aspects of interconnection, resale services and access to unbundled elements ... [and] move[] beyond the distinction between interstate and intrastate matters that was established in the 1934 Act...."

safeguards do not exist or are not forthcoming and if the Commission determines that the lack of such procedures enables the BOCs to allocate costs between the two services in ways which hinder the development of competition in the local and intraLATA toll market, the Commission would be obligated in accordance with the responsibilities entrusted to it under the 1996 Act to preempt the States and establish cost allocation rules to prevent the BOCs from abusing their market power in the intraLATA market.

III. SAFEGUARDS FOR INTEGRATED OPERATIONS

Sprint agrees with the Commission's tentative conclusion that, with respect to the services which the BOCs and independent LECs are permitted to provide on an integrated basis, the Commission's "Part 64 cost allocation rules generally satisfy the statute's requirement of safeguards to ensure that these services are not subsidized by subscribers to regulated telecommunications services." *NPRM* at ¶27. These rules have been in effect for some time and when properly implemented and enforced can achieve their intended purpose of preventing local exchange carriers from "assign[ing] the costs of [integrated] nonregulated services to regulated products and services." *Id.* at ¶28. Thus, there is simply no need to require the LECs to incur the "substantial administrative and financial costs" of "[r]edesigning [their] internal [cost allocation] systems to accommodate a fundamentally different cost allocation approach." *Id.*

It especially makes little sense to develop new cost allocation approaches here when the BOCs -- whose ability to exploit their market power to harm consumers and competition was plainly of utmost concern to Congress -- are unlikely, either because of statutory provisions or Commission regulation, to provide many competitive services on an integrated basis. Thus, the BOCs are permitted under Section 272 to provide only certain incidental interLATA services, out-of-region interLATA services and payphone service on an integrated basis. Under Section 271(h), however, incidental interLATA services are to be "narrowly construed,"[4] and the Commission has determined that BOC provision of integrated out-of-region interLATA services would be subject to dominant carrier regulation. *See Bell Operating Company Provision of Out-of-Region Interstate, Interexchange Services, Report and Order*, FCC 96-288 (July 1, 1996) (*BOC Out-of-Region Order*).[5]

[4] Although alarm monitoring is listed as an incidental service, no BOC, other than Ameritech, is allowed to provide such service for a period of five years. Section 275(a)(1).

[5] For the regulated interLATA telecommunications services which the BOCs are permitted to provide on an integrated basis, the Commission must ensure that the BOCs impute the same access charges to themselves as they charge other providers of such services. In any event, the Commission's ability to guard against cross-subsidization under the Part 64 Rules is furthered by "requiring that the BOCs classify any regulated services other than local exchange and exchange access services they provide on an integrated basis as nonregulated activities for Title II accounting purposes." *NPRM* at ¶39. The Commission must be especially vigilant in cases where the BOCs "jointly market and

Footnote continues on next page.

For these reasons, Sprint believes that wholesale modifications of the Commission's Joint Cost rules are not needed to enable the Commission to guard against cross-subsidization and discrimination by the BOCs providing services on an integrated basis. In those instances where the Commission has been granted jurisdiction over regulated services previously subject to state regulation and where there is no statutory requirement for the BOCs to provide such services on a separated basis, *e.g.*, payphone services, the Commission should, for cost accounting purposes, require the BOCs treat such services as if they were nonregulated.[6]

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sell commercial mobile services in conjunction with telephone exchange service, exchange access, intraLATA telecommunications, interLATA telecommunications service and information services." Section 601(d) of the 1996 Act. Thus, the BOCs must be required to classify their provision of commercial mobile services as non-regulated for accounting purposes and, to the extent the BOCs integrate their mobile and local operations, to allocate joint use plant in accordance with Section 32.23(c) of the Commission's Rules.

[6] The Commission should require that the BOCs record the costs of providing payphone service to a single category in order that the Commission can determine what is fair compensation for payphone calls as required under Section 276(b)(1)(A). At paragraph 60, the Commission notes that the "Section 276 does not prescribe or direct the Commission to prescribe accounting safeguards to govern the provision of payphone service by incumbent local carriers other than the BOCs." Thus, the Commission asks for comments on the proper regulatory treatment, if any, of the payphone service provided by the other incumbent LECs. Sprint's position regarding the regulatory treatment of payphone service by these LECs is set forth in its Comments in CC Docket No. 96-128 (*Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*) at

Footnote continues on next page.

IV. SAFEGUARDS FOR SEPARATED OPERATIONS

The fact that under the 1996 Act the BOCs will be allowed to enter the competitive interLATA communications, manufacturing and information services markets only through separate subsidiaries requires that the Commission have in place accounting rules governing the transactions between the dominant BOC telephone companies and their affiliates providing these competitive services. Although structural separation may "limit the carrier's ability to engage in subsidization," *id.* at ¶62, nonstructural affiliate transaction accounting safeguards are still necessary "to protect interstate ratepayers from subsidizing the competitive ventures of incumbent local exchange carrier affiliates." *Id.* at 63.

As in the case of accounting safeguards for integrated operations, Sprint believes that the Commission does not have to develop a wholly new regulatory scheme to provide such protection. Sprint agrees with the Commission's tentative conclusion that Commission's "current affiliate transactions rules generally satisfy the statute's requirement of safeguards to ensure that these services are not subsidized by subscribers to regulated telecommunications services." *Id.* at ¶64.

25-28. For the Commission's convenience, Sprint attaches the applicable pages of such comments hereto as Appendix A.

But, the Commission also proposes to have uniform valuation methods for all transactions between the BOCs and its affiliates engaged in manufacturing or the provision of originating telecommunications interLATA services and interLATA information services regardless of whether such transactions involve assets or services. *NPRM* at ¶77.[7] These transactions between the BOCs (or independent LECs) and their affiliates would be recorded either at the tariffed rate or in the case of "affiliate transactions that do not involve tariffed assets or services...at the higher of cost and estimated fair market value when the carrier is the seller or transferor, and at the lower of cost and estimated fair market value when the carrier is the buyer or transferee...." *Id.* at ¶78.[8]

A. Prevailing Market Price

Under the Commission proposal, therefore, carriers would no longer be able to utilize "prevailing price method...to establish

[7] Although the Commission's proposed modifications to its Affiliate Transaction rules would appear to be limited to transactions between the BOCs and their affiliates, *NPRM* at ¶77, Sprint assumes that such modified rules would also be applied to transactions between any incumbent LEC and its affiliates especially since the rules were originally proposed in the *Affiliate Transactions Notice* (*Amendment of Parts 32 and 64 of the Commission's Rules to Account for Transactions Between Carriers and Their Nonregulated Affiliates*, 8 FCC Rcd 8071 (1993)) for all Tier 1 local exchange carriers. Sprint's opposition here is based on this assumption.

[8] The cost benchmarks would continue to be "net book cost for asset transfers and fully distributed costs for service transfers." *NPRM* at ¶78.

the value of the affiliate transaction." *Id.* at ¶80. Sprint believes that such proposal is ill-advised.

The Commission says that the elimination of this valuation method is justified because "prevailing price in affiliate transactions may not reflect fair market value primarily because of the different nature of affiliate and non-affiliate transactions." *Id.* According to the Commission, affiliate transactions "generally do not require extensive marketing efforts and involve lower transactional costs than sales to non-affiliates." *Id.* However, as Sprint explained in its Comments on the *Affiliate Transaction Notice*, the notion that an entity which operates in a highly competitive open market (such as Sprint's equipment supplier, North Supply) does not need to devote the same amount of effort and resources to win business from its affiliates as it does from non-affiliates is incorrect. *See* Sprint's Docket 93-251 Comments at 9-10.[9] In a competitive market with a variety of suppliers offering a plethora of price and service options, an entity has to work just as hard to sell to its affiliates as it does to non-affiliates. Otherwise, its affiliates will look to other suppliers.

The Commission's view that "defining what constitutes a prevailing price" is difficult, NPRM at ¶81, is, at least in

[9] For the Commission's convenience, Sprint has attached the relevant portions of its Comments in CC Docket No. 93-251 hereto as Appendix B.

cases of transactions in an open competitive market with numerous suppliers, also incorrect. Sales to non-affiliates establish market value at that point in time. Indeed, if Sprint's North Supply subsidiary did not offer equipment at market based prices to non-affiliates, it would lose business. And, if North Supply sought to charge its affiliates a higher price than that offered to non-affiliates, such affiliates also could look elsewhere for its equipment. *See* Sprint's Docket 93-251 Comments at 6-9.

Sprint agrees that in cases where an affiliate does not operate in a competitive market or there are few non-affiliate transactions, outside sales cannot reliably be used to establish market value. But, in such cases, the Commission can simply require that fully distributed costs be used at the cost benchmark. *See* Sprint Docket 93-251 Comments at 11-16. It need not eliminate use of prevailing price in competitive markets simply because that methodology is problematic for non-competitive markets. Thus, Sprint strongly recommends that the Commission continue to allow entities operating in competitive markets to use prevailing market price method to establish the fair market value of affiliate transactions.

B. Fair Market Value for Services

Sprint further recommends that the Commission abandon its proposal to require that carriers utilize estimates of fair market value to establish the value of affiliate transaction involving services. *NPRM* at ¶83. As Sprint emphasized in its

Comments in Docket 93-251 (at 17-21), any attempt to establish fair market value for services is inherently subjective and easily manipulated. Indeed, the Commission previously has found that use of a fair market value test for transactions involving services "is fraught with the potential for abuse, and would be difficult to monitor." *Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities, Order on Reconsideration,* 2 FCC Rcd 6283, 6297 ¶131 ((1987). Nothing in the *NPRM* here suggests that such finding is no longer applicable. On the contrary, the Commission recognizes making "good faith determinations of the fair market value" for services (and possibly some assets) would be difficult.

In sum, Sprint believes that the current valuation rules for affiliate transactions should be retained. As the Commission has found, such rules have worked well and are achieving their intended purpose. Under such circumstances, changing the rules for the sake of uniformity would not be in the public interest.

V. Price Cap Regulation

A. Exogenous Costs and Part 64

In Section IV, the Commission requests comments on the treatment under price caps of cost changes resulting from the reallocation of investment from regulated to nonregulated activities. The Commission notes that Section 61.45(d)(1)(v) of its Rules provides for the exogenous treatment of such cost changes and questions whether this exogenous treatment should be applied to reallocations from nonregulated to regulated activities. *NPRM at* ¶123.

Sprint believes that where investment is reallocated from regulated to nonregulated activities, the price cap indices must be lowered to reflect the removal of investment and associated costs from regulated activities. Reallocation from nonregulated to regulated activities, however, may lead to consumers of regulated services bearing the risk associated with nonregulated services. If LECs were allowed to increase their price caps because investments were reallocated from nonregulated activities to regulated activities, an incentive to subsidize nonregulated services with regulated services would be created. For example, if new investment is installed to provide both regulated and nonregulated services and the carrier subsequently withdraws from one of the nonregulated services, the carrier should not be allowed to reallocate the investment among the remaining services. If the reallocation resulted in additional investment being allocated to the regulated service, such reallocation would effectively cross-subsidize the service from which the carrier has withdrawn. Clearly, this result runs counter to a primary benefit of price caps -- the elimination of incentives to cross-subsidize services -- and should not be permitted. If the Commission nevertheless decides to allow reallocations from nonregulated to regulated services, it much carefully scrutinize them to protect consumers against cross-subsidization.

The Commission also seeks comment on "the potential exogenous treatment of new investment in network plant, some of which will be used for telemessaging service." *Id.* The portion of the new investment associated with telemessaging should be allocated initially to nonregulated services, and therefore should not be treated as exogenous. The remainder of the new investment should be treated as exogenous only where it is the result of an "administrative, legislative or judicial action ... beyond the control of the carriers," *id.* at ¶122, and not otherwise reflected in the price cap formula. Any investment which is not the result of such action should be considered a general network upgrade and should not be treated as exogenous.

B. **Part 64 and Sharing**

Under current price cap rules, LECs may select their productivity offset, or X-Factor, and will not be required to "share" if they choose the highest factor. Most of the carriers selected the highest productivity factor for the 1995-96 access year and are not subject to sharing. The Commission therefore solicits comment on the elimination of sharing obligations and the impact of such action on cost allocation and Part 64 processes.

Under a "pure" price cap regime, LECs would have little incentive to have their regulated services subsidize their nonregulated operations. Higher costs for regulated services would not result in higher prices; rather, the profitability of the regulated services would be reduced. Thus, in theory, carriers would not engage in anticompetitive cross-subsidization activities, and there would be no need for safeguards.[10]

However, the Commission's price cap regime is not "pure" and cannot realistically (or legally) be made "pure." Therefore, a price cap regime does not fully protect against anticompetitive activities. The elimination of earnings sharing -- which Sprint supports -- does not make price caps completely "pure."[11] Exogenous treatment for certain costs remains in the price cap formula, and carriers may be incented thereby to misallocate costs from competitive, unregulated services to the regulated side. Investments utilized by both regulated and nonregulated activities must be allocated between them. Thus, the Commission cannot assume that the elimination of sharing will completely eliminate all cross-subsidization incentives or the need for cost allocation rules.

Moreover, even if sharing is eliminated, the Commission must continue to perform periodic performance reviews in order to

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[10] *See United State of America v. Western Electric Co., Inc. and American Telephone and Telegraph Company,* Civil Action No. 82-0192 (HHG), Opposition of Sprint Communications Company L.P. to Motion to Vacate, Affidavit of John E. Kwoka, Jr., ¶¶31-55, filed November 16, 1994.

[11] Sprint has repeatedly supported the Commission's efforts to revise Price Caps so as to remove reliance upon costs where possible and thus limit the incentives for misallocation and cross-subsidization.

ensure that the price cap plan is working as intended. The Commission remains responsible under Section 201 of the Act for ensuring that the rates charged by the LECs are just and reasonable and that the LECs are earning a satisfactory rate of return. Thus, the Commission must continue to examine the X-Factor and evaluate whether profit levels are acceptable. If a carrier does not have a reasonable opportunity under an efficient management to earn its cost of capital, or, if it is earning at a level which would be considered excessive under any reasonable standard, the Commission must make adjustments to ensure that earnings are just an reasonable. The Commission undertook to correct the X-Factor in its *Price Caps Performance Review,* 10 FCC Rcd 8961 (1995), based on its review of the LECs' performance, and it continues to monitor regulated companies' performance by requiring them to report earnings each quarter. As long as regulation is required, the Commission cannot completely sever the umbilical cord to costs.

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APPENDIX A

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Implementation of the Pay Telephone	)	
Reclassification and Compensation	)	CC Docket 96-128
Provisions of the Telecommunications	)	
Act of 1996	)	

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The Commission also seeks comment, in ¶39, on whether it should provide PPOs some measure of interim compensation to be paid until final rules in this proceeding take effect. Sprint is skeptical that such a compensation system could be put in place by the industry prior to the effective date of rules establishing a permanent compensation plan. Moreover, there is no clear showing of need by the PPOs for such compensation. Since, as the analysis above would indicate, the 25¢ per call rate PPOs are receiving from AT&T and Sprint fully compensates them for other calls not currently compensable, and the per-call charge implicit in the per-line charge they receive from other IXCs is even greater, there is no reason to believe they are entitled to any additional compensation at this time.

B. RECLASSIFICATION OF INCUMBENT LEC-OWNED PAYPHONES

2. Discussion

a. Classification of LEC Payphones as CPE

Sprint agrees with the Commission's tentative conclusion (¶44) that LEC payphones should be classified as CPE for Computer II regulatory purposes but that structural separation should not be required. Sprint also agrees that LECs should be required to offer central office coin transmission services to PSPs under a non-discriminatory, public, tariffed offering (¶45) and that such an offering should be treated as a "new service" for purposes of price cap rules (see ¶46). Sprint also shares the Commission's view (¶47) that the demarcation point for LEC payphones should be consistent with standards for other LEC services. However, Sprint does not believe the Commission should require LECs to offer any of the additional payphone-related services mentioned in ¶48 as tariffed offerings at the present time. Some of the services mentioned in ¶48 -- installation and maintenance services, and joint marketing opportunities -- are not communications common carrier services and are not subject to Title II of the Act. The only fraud prevention service the Sprint LECs provide is part of the coin transmission service and would be implicit in that tariffed offering.[18] As far as Sprint is aware, per-call tracking capabilities -- at least for completed calls -- do not exist in the LEC industry today and thus cannot be offered as tariffed services. Finally, call validation services are available through the tariffed LIDB access service and need not be the subject of further regulatory requirements at this time.

b. Transfer of Payphone Equipment to an Unregulated Status

Sprint agrees with the Commission's tentative conclusion (¶49) that the assets to be transferred to non-regulated operations should relate to the payphones themselves and

[18] To the extent that specialized numbers are used as a fraud protection mechanism, such numbers should be available on a nondiscriminatory basis.